MUSCATINE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2009

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Muscatine Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2008 election)	
Tom Welk	President	2008
Tammi Drawbaugh	Vice President	2009
Bob Leech	Board Member	2008
Paul Brooks	Board Member	2009
Joyce Haller	Board Member	2009
Clyde Evans	Board Member	2010
Robin Krueger	Board Member	2010
	Board of Education (After September 2008 election)	
Tom Welk	President	2011
Paul Brooks	Vice President	2009
Tammi Drawbaugh	Board Member	2009
Jerry Lange	Board Member	2011
Joyce Haller	Board Member	2009
Clyde Evans	Board Member	2011 *
Robin Krueger	Board Member	2011 *
	School Officials	
Dr. Tom Williams	Superintendent	2009
Jean K. Garner	Director of Finance and Budget	2009
Lisa Mosier	District Secretary	2009
Duane J. Goedken	Attorney	2009
Stanley, Lande & Hunter	Attorney	2009

* Board term altered per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Muscatine Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Muscatine Community School District, Muscatine, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Muscatine Community School District at June 30, 2009, and its discretely presented Component Unit as of and for the year ended December 31, 2008 and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2010 on our consideration of the Muscatine Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Muscatine Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2008 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $44,486,924 in fiscal 2008 to $45,955,723 in fiscal 2009, while General Fund expenditures increased from $45,750,174 in fiscal 2008 to $48,404,427 in fiscal 2009. This resulted in a decrease in the District's General Fund balance from $6,448,876 in fiscal 2008 to a balance of $4,000,172 in fiscal 2009, a 37.97% decrease from the prior year.

- The increase in General Fund revenues was attributable to increases in state and federal sources during fiscal 2009. The increase in expenditures was primarily due to an increase in negotiated salaries and benefits.

- The District received several American Recovery Reinvestment Act (ARRA) stimulus moneys in 2009; ARRA Fiscal Stabilization funding was $456,335, ARRA IDEA Part B Section 611 was $165,770 and ARRA Title I Basic Stabilization was $87,011.

- The Governor announced a 1.5% across the board cut in state funding in January 2009. This resulted in a reduction of $364,281 to the District in state aid payments. The state also used the ARRA Fiscal Stabilization fund to offset another across the board cut in May 2009.

- A major construction and renovation project at McKinley Elementary School was started in fiscal year 2008. The $1.8 million project consists of six additional classrooms, renovation of existing classrooms, lighting and of the building. As of June 30, 2009, approximately $1.7 million of this project was completed, with $1.1 million expended in fiscal year 2009.

- A major construction and renovation project at Madison Elementary School was started in fiscal year 2008. The $3.3 million project consists of four additional classrooms, a new gymnasium, a new kitchen, converting to a geothermal system, purchase of property along with renovations to existing rooms. As of June 30, 2009, approximately $3.0 million of this project was completed, with $2.4 million expended in fiscal year 2009.

- A major construction and renovation project at Mulberry Elementary School was started in fiscal year 2009. The $1.8 million project consists of 7,548 square feet for seven additional classrooms and renovation of existing classrooms. As of June 30, 2009, approximately $0.6 million of this project was completed.

- A major construction and renovation project at Grant Elementary School was started in fiscal year 2009. The $1.8 million project consists of 6,720 square feet for five additional classrooms, renovation of existing classrooms and 2000 square feet for a new media center. As of June 30, 2009, approximately $0.6 million of this project was completed.

- At June 30, 2009, the District had approximately $2.1 million in other long-term debt outstanding. This represents a 14.92% decrease from last year. The contributing factor was the discontinuance of our early retirement program, which resulted in a significant decrease in liability owed to retirees.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of revenues, expenses and changes in net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

- *Business type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Day Care Fund and one Internal Service Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund and Agency Fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

- Agency Fund - These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District fees, Retiree Health Insurance, Band Rentals, Flex Spending Accounts, Child Medical Assistance, MHS Arts, Drivers Ed Equipment, Industrial Technology, Elementary Projects, Hall of Honor and Camps accounts and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	$ 34,816,056	36,803,856	630,409	671,190	35,446,465	37,475,046	-5.41%
Capital assets	30,915,983	26,892,098	147,788	180,092	31,063,771	27,072,190	14.74%
Total assets	65,732,039	63,695,954	778,197	851,282	66,510,236	64,547,236	3.04%
Long-term obligations	2,127,364	2,490,080	191	0	2,127,555	2,490,080	-14.56%
Other liabilities	21,612,937	20,670,641	156,205	141,880	21,769,142	20,812,521	4.60%
Total liabilities	23,740,301	23,160,721	156,396	141,880	23,896,697	23,302,601	2.55%
Net assets:							
Invested in capital assets, net of related debt	30,915,983	26,892,098	147,788	180,092	31,063,771	27,072,190	14.74%
Restricted	8,269,033	9,031,046	0	0	8,269,033	9,031,046	-8.44%
Unrestricted	2,806,722	4,612,089	474,013	529,310	3,280,735	5,141,399	-36.19%
Total net assets	$ 41,991,738	40,535,233	621,801	709,402	42,613,539	41,244,635	3.32%

The District's combined net assets increased 3.32%, or $1,368,904, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased $762,013 or 8.44% over the prior year. The decrease was primarily a result of the decrease in fund balance of the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased $1,860,664 or 36.19%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Revenues:							
Program revenues:							
Charges for services	$ 1,572,072	1,714,218	1,096,801	1,162,546	2,668,873	2,876,764	-7.23%
Operating grants and contributions and restricted interest	8,548,004	6,858,353	1,542,786	1,301,594	10,090,790	8,159,947	23.66%
Capital grants and contributions and restricted interest	32,028	249,360	0	0	32,028	249,360	-87.16%
General revenues:							
Property tax	14,735,879	14,325,652	0	0	14,735,879	14,325,652	2.86%
Statewide sales and services tax	3,752,525	3,516,622	0	0	3,752,525	3,516,622	6.71%
Unrestricted state grants	24,200,831	24,201,219	0	0	24,200,831	24,201,219	0.01%
Unrestricted investment earnings	260,318	641,829	1,953	2,748	262,271	644,577	-59.31%
Other general revenue	446,621	396,631	1,117	0	447,738	396,631	12.89%
Total revenues	53,548,278	51,903,884	2,642,657	2,466,888	56,190,935	54,370,772	3.35%
Program expenses:							
Governmental activities:							
Instructional	36,034,417	33,373,395	0	0	36,034,417	33,373,395	7.97%
Support services	13,389,444	13,320,294	69,299	48,763	13,458,743	13,369,057	0.67%
Non-instructional programs	44,964	58,950	2,660,959	2,488,106	2,705,923	2,547,056	6.24%
Other expenses	2,622,948	1,851,969	0	0	2,622,948	1,851,969	41.63%
Total expenses	52,091,773	48,604,608	2,730,258	2,536,869	54,822,031	51,141,477	7.20%
Changes in net assets	1,456,505	3,299,276	(87,601)	(69,981)	1,368,904	3,229,295	57.61%
Beginning net assets	40,535,233	37,235,957	709,402	779,383	41,244,635	38,015,340	8.49%
Ending net assets	$ 41,991,738	40,535,233	621,801	709,402	42,613,539	41,244,635	3.32%

In fiscal 2009, property tax, statewide sales and services tax and unrestricted state grants account for 79.72% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.88% of the revenue from business type activities.

The District's total revenues were approximately $56.19 million of which approximately $53.55 million was for governmental activities and approximately $2.64 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.35% increase in revenues and a 7.20% increase in expenses. Property tax increased $410,227 and statewide sales and services tax increased $235,903 to fund increases in expenses. The increase in expenses related to increase in the negotiated salary and benefits, as well as increases in utilities and transportation costs.

Governmental Activities

Revenues for governmental activities were $53,548,278 and expenses were $52,091,773.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	$ 36,034,417	33,373,395	7.97%	27,993,744	26,778,735	4.54%
Support services	13,389,444	13,320,294	0.52%	13,227,831	12,944,992	2.18%
Non-instructional programs	44,964	58,950	-23.73%	44,964	58,950	-23.73%
Other expenses	2,622,948	1,851,969	41.63%	673,130	0	100.00%
Totals	$ 52,091,773	48,604,608	7.17%	41,939,669	39,782,677	5.42%

- The cost financed by users of the District's programs was $1,572,072.
- Federal and state governments subsidized certain programs with grants and contributions totaling $8,580,032.
- The net cost of governmental activities was financed with $14,735,879 in property tax, $3,752,525 in statewide sales and services tax, $24,200,831 in unrestricted state grants, $260,318 in interest income and $446,621 in other general revenue.

Business type Activities

Revenues of the District's business type activities were $2,642,657 and expenses were $2,730,258. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Muscatine Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of $13,203,119, below last year's ending fund balances of a $16,133,215. This primarily resulted from a decrease in the General Fund balance.

Governmental Fund Highlights

- The District's decrease in General Fund financial position from $6,448,876 to $4,000,172 is the product of many factors. Increases in local tax and federal sources were the main reason for the increase in General Fund revenues. Unfortunately, the increase in revenues was not enough to offset the increase in operating costs during the year. This caused the General Fund balance to decrease by $2,448,704.

- The Physical Plant and Equipment Levy Fund balance increased from $3,030,841 in fiscal 2008 to $3,158,190 in fiscal 2009. The District received less in fund revenues in fiscal 2009 as compared to fiscal 2008. Fund expenditures were also less for the same time period. The net change in this fund was an increase of $127,349.

- The Capital Projects Fund balance decreased from $5,136,221 in fiscal 2008 to $4,090,701 in fiscal 2009. The District had received more in statewide sales and services tax than in the previous year. The increase in capital construction expenditures for projects at McKinley Elementary, Madison Elementary, Mulberry Elementary, Grant Elementary and Garfield Elementary caused the $1,045,520 decrease in fund balance.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from $709,402 at June 30, 2008 to $621,801 at June 30, 2009, representing a decrease of 12.35%.

BUDGETARY HIGHLIGHTS

The District's revenues were $1,516,595 less than budgeted revenues, a variance of 2.63%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated which was offset by the decrease in what was received by the District in state and local sources.

Total expenditures were less than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

During the year ended June 30, 2009, the District amended its budget one time increasing total expenditures by $3,242,969. The amendment was needed to reflect increased expenditures in all functional areas.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested $31.06 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was $1,904,113.

The original cost of the District's capital assets was $55.47 million. Governmental funds account for $55.04 million with the remainder of $0.43 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled $1,392,299 at June 30, 2008, compared to $6,104,534 reported at June 30, 2009. This increase resulted from uncompleted construction projects at McKinley Elementary, Madison Elementary, Mulberry Elementary, Grant Elementary and Garfield Elementary.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Land	$ 748,992	741,270	0	0	748,992	741,270	1.03%
Construction in progress	6,104,534	1,392,299	0	0	6,104,534	1,392,299	77.19%
Buildings	20,287,344	21,285,306	0	0	20,287,344	21,285,306	-4.92%
Land improvements	1,802,906	1,820,980	0	0	1,802,906	1,820,980	-1.00%
Machinery and equipment	1,972,207	1,652,243	147,788	180,092	2,119,995	1,832,335	13.57%
Total	$ 30,915,983	26,892,098	147,788	180,092	31,063,771	27,072,190	12.85%

Long-Term Debt

At June 30, 2009, the District had $2,127,555 in other long-term debt outstanding. This represents a decrease of 17.04% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding Early Retirement payable from the General and Management Levy Funds of $2,118,555 at June 30, 2009.

The District also has a net OPEB liability caused by the implementation of GASB 45 of $9,000.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Early retirement	$ 2,118,555	2,490,080	0	0	2,118,555	2,490,080	-17.54%
Net OPEB liability	8,809	0	191	0	9,000	0	100.00%
Total	$ 2,127,364	2,490,080	191	0	2,127,555	2,490,080	-17.04%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The district has no General obligation bonded indebtedness.

- The District negotiated one-year and two-year collective bargaining agreements for employee groups. The two-year agreements provide total package increases of 3.5% for fiscal year 2010 and 2.5% for fiscal year 2011 for classified administrators, secretarial/clerical aide/para educators and the school bus driver groups. The one-year agreement provided a total package increase of 4.0% for fiscal year 2010 for all remaining groups. The District will need to negotiate collective bargaining agreements for the remaining employee groups for 2011.

- The State School Budget Review Committee granted requests from school districts state wide for modified allowable growth as a result of the requirement to convert to budgeting under Generally Accepted Accounting Principles from Cash basis budgeting in fiscal year 2007. Each school district had to apply for the allowable growth but the authority was granted by class action for all the districts that applied. This amounted to $3,750,622 worth of additional budget authority for the District. This one time increase in our unspent balance resulted in larger collective bargaining settlements. These larger settlements carry forward into future years along with declining economic are reducing our unspent balance authority.

- The District's regular program cost per pupil increased 4% from $5,546 in fiscal year 2009 to $5,768 in fiscal year 2010. The state is under-funding this allowable growth causing the District to use our cash reserve or other means to cover the shortfall. The legislators also approved a 2% increase in allowable growth for fiscal year 2011, which would result in the District's regular program cost per pupil of $5,883. This is an important figure as the District's budget is mostly determined by multiplying this figure times the certified enrollment. However, there is much debate on how much the state will fund.

- The District's certified enrollment decreased 12.6 FTE from 5,569.4 students in September 2004 to 5,556.8 students in September 2005, another 52.7 FTE students in October 2007 resulting in a certified enrollment of 5,504.1, and yet another decrease of 34.2 FTE students in October 2007 resulting in a certified enrollment of 5,469.9, increased 8.0 FTE students in the October 2008 resulting in a certified enrollment of 5,477.9. The October 2009 certified enrollment was 5,394.25, down 83.65 FTE students. Student enrollment trends are negative. These are important figures as the District's budget is determined by multiplying this figure times the regular program District cost. With declining enrollment, this negatively affects our budget and capacity to spend. This is something we are going to have to deal with in setting the budget and during negotiations.

- The District has been awarded several American Recovery Reinvestment Act (ARRA) stimulus moneys for 2010; ARRA Fiscal Stabilization funding of $2,342,768, ARRA IDEA Part B Section 611 funding of $331,540, ARRA Title I Basic Stabilization funding of $174,022, ARRA McKinney-Vento Homeless Youth funding of $329,349, ARRA Professional Development funding of $19,943 and ARRA School Lunch Equipment Grants of $54,301. The ARRA Fiscal Stabilization fund of $2,342,768 is not additional funds but take the place of state aid.

- The District reinstated the early retirement incentive program in fiscal year 2010. This program is designed to reduce expenditures within the General Fund. This action may affect our management levy rate and the General Fund expenditures for salaries in the future.

- The District placed the Physical Plant and Equipment Levy issue before the voters of Muscatine County in September 2009, the issue passed at a 77.87% approval rate. This voter approved levy gives the District the ability to levy $1.34 worth of property tax for a period of ten years.

- Although we do not know the full impact the depressed national and local economy will have on the future demographics of the District, the local economy is still reeling from the lock-out of 360 employees from one of our major employers, layoffs and impending layoffs of more than 500 employees of another major employer and the loss of 47 jobs when a factory closed.

- The condition of the national, state and local economies directly affects the future economics of the school. Actions taken by the governor and legislators to balance the state budget affect education funding. During this economic downturn, the across the board cut of 1.5% in fiscal year 2009 and 10% in fiscal year 2010 will impact the cash flow and solvency of the District. The District will need to assess how to recoup the loss of revenue.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jean Garner, Director of Finance and Budgeting, Muscatine Community School District, 2900 Mulberry Avenue, Muscatine, Iowa, 52761.

BASIC FINANCIAL STATEMENTS

Exhibit A

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and pooled investments	$ 18,201,222	519,268	18,720,490
Receivables:			
Property tax:			
Delinquent	251,649	0	251,649
Succeeding year	15,330,146	0	15,330,146
Accounts	81,102	1,080	82,182
Due from other governments	868,596	33,309	901,905
Inventories	83,341	76,752	160,093
Capital assets, net of accumulated depreciation	30,915,983	147,788	31,063,771
TOTAL ASSETS	65,732,039	778,197	66,510,236
LIABILITIES			
Accounts payable	875,907	3,081	878,988
Salaries and benefits payable	5,127,050	124,327	5,251,377
Deferred revenue:			
Succeeding year property tax	15,330,146	0	15,330,146
Other	279,834	0	279,834
Unearned revenue	0	28,797	28,797
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	799,598	0	799,598
Portion due after one year:			
Early retirement payable	1,318,957	0	1,318,957
Net OPEB liability	8,809	191	9,000
TOTAL LIABILITIES	23,740,301	156,396	23,896,697
NET ASSETS			
Invested in capital assets	30,915,983	147,788	31,063,771
Restricted for:			
Categorical funding	564,117	0	564,117
Physical plant and equipment levy	3,158,190	0	3,158,190
Capital projects	4,090,701	0	4,090,701
Other special revenue purposes	456,025	0	456,025
Unrestricted	2,806,722	474,013	3,280,735
TOTAL NET ASSETS	$ 41,991,738	621,801	42,613,539

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	$ 22,746,169	588,980	6,102,436	0	(16,054,753)	0	(16,054,753)
Special	7,592,640	246,523	380,993	0	(6,965,124)	0	(6,965,124)
Other	5,695,608	646,243	75,498	0	(4,973,867)	0	(4,973,867)
	36,034,417	1,481,746	6,558,927	0	(27,993,744)	0	(27,993,744)
Support services:							
Student	1,463,043	0	0	0	(1,463,043)	0	(1,463,043)
Instructional staff	1,071,629	0	0	0	(1,071,629)	0	(1,071,629)
Administration	5,320,623	0	0	0	(5,320,623)	0	(5,320,623)
Operation and maintenance of plant	4,099,817	0	0	32,028	(4,067,789)	0	(4,067,789)
Transportation	1,434,332	90,326	39,259	0	(1,304,747)	0	(1,304,747)
	13,389,444	90,326	39,259	32,028	(13,227,831)	0	(13,227,831)
Non-instructional programs:							
Food service operations	44,964	0	0	0	(44,964)	0	(44,964)
Other expenditures:							
Facilities acquisitions	673,130	0	0	0	(673,130)	0	(673,130)
AEA flowthrough	1,949,818	0	1,949,818	0	0	0	0
	2,622,948	0	1,949,818	0	(673,130)	0	(673,130)
Total governmental activities	52,091,773	1,572,072	8,548,004	32,028	(41,939,669)	0	(41,939,669)
Business type activities:							
Support services:							
Administration	66,057	0	0	0	0	(66,057)	(66,057)
Operation and maintenance of plant	3,242	0	0	0	0	(3,242)	(3,242)
	69,299	0	0	0	0	(69,299)	(69,299)
Non-instructional programs:							
Nutrition services	2,660,959	1,096,801	1,542,786	0	0	(21,372)	(21,372)
Total business type activities	2,730,258	1,096,801	1,542,786	0	0	(90,671)	(90,671)
Total	$ 54,822,031	2,668,873	10,090,790	32,028	(41,939,669)	(90,671)	(42,030,340)
General Revenues:							
Local tax for:							
General purposes					$ 13,753,134	0	13,753,134
Capital projects					982,745	0	982,745
Statewide sales and services tax					3,752,525	0	3,752,525
Unrestricted state grants					24,200,831	0	24,200,831
Unrestricted investment earnings					260,318	1,953	262,271
Other general revenue					446,621	1,117	447,738
Total general revenues					43,396,174	3,070	43,399,244
Changes in net assets					1,456,505	(87,601)	1,368,904
Net assets beginning of year					40,535,233	709,402	41,244,635
Net assets end of year					$ 41,991,738	621,801	42,613,539

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit C

MUSCATINE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	$ 8,858,536	3,213,258	4,166,738	1,962,690	18,201,222
Receivables:					
Property tax:					
Delinquent	205,957	15,208	0	30,484	251,649
Succeeding year	12,792,162	1,032,984	0	1,505,000	15,330,146
Accounts	77,548	0	0	3,554	81,102
Due from other governments	594,625	201	273,362	408	868,596
Inventories	83,341	0	0	0	83,341
TOTAL ASSETS	$ 22,612,169	4,261,651	4,440,100	3,502,136	34,816,056
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 444,193	70,477	349,399	11,838	875,907
Salaries and benefits payable	5,095,808	0	0	31,242	5,127,050
Deferred revenue:					
Succeeding year property tax	12,792,162	1,032,984	0	1,505,000	15,330,146
Other	279,834	0	0	0	279,834
Total liabilities	18,611,997	1,103,461	349,399	1,548,080	21,612,937
Fund balances:					
Reserved for:					
Inventories	83,341	0	0	0	83,341
Categorical funding	564,117	0	0	0	564,117
Designated for:					
Medicaid reserve	4,608	0	0	0	4,608
Unreserved	3,348,106	3,158,190	4,090,701	1,954,056	12,551,053
Total fund balances	4,000,172	3,158,190	4,090,701	1,954,056	13,203,119
TOTAL LIABILITIES AND FUND BALANCES	$ 22,612,169	4,261,651	4,440,100	3,502,136	34,816,056

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit D

MUSCATINE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total fund balances of governmental funds (page 16)	$ 13,203,119
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in the governmental funds.	30,915,983
Long-term liabilities, including early retirement and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(2,127,364)
Net assets of governmental activities (page 14)	$ 41,991,738

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	$ 11,979,093	982,745	3,752,525	1,774,041	18,488,404
Tuition	634,578	0	0	0	634,578
Other	856,980	72,374	28,084	1,003,958	1,961,396
State sources	30,363,492	492	0	0	30,363,984
Federal sources	2,067,888	32,028	0	0	2,099,916
Total revenues	45,902,031	1,087,639	3,780,609	2,777,999	53,548,278
EXPENDITURES:					
Current:					
Instruction:					
Regular	20,965,485	77,800	0	919,881	21,963,166
Special	7,590,536	0	0	0	7,590,536
Other	4,829,678	0	0	865,688	5,695,366
	33,385,699	77,800	0	1,785,569	35,249,068
Support services:					
Student	1,444,330	0	0	14,764	1,459,094
Instructional staff	1,086,686	0	0	5,564	1,092,250
Administration	5,078,913	231,013	0	126,505	5,436,431
Operation and maintenance of plant	3,933,322	88,738	0	222,887	4,244,947
Transportation	1,525,659	5,355	0	104,994	1,636,008
	13,068,910	325,106	0	474,714	13,868,730
Non-instructional programs:					
Food service operations	0	0	0	26,418	26,418
Other expenditures:					
Facilities acquisitions	0	559,236	4,826,129	0	5,385,365
AEA flowthrough	1,949,818	0	0	0	1,949,818
	1,949,818	559,236	4,826,129	0	7,335,183
Total expenditures	48,404,427	962,142	4,826,129	2,286,701	56,479,399
Excess(deficiency) of revenues over(under) expenditures	(2,502,396)	125,497	(1,045,520)	491,298	(2,931,121)
Other financing sources(uses):					
Sale of equipment	1,025	0	0	0	1,025
Transfer in	52,667	1,852	0	0	54,519
Transfer out	0	0	0	(54,519)	(54,519)
Total other financing sources(uses)	53,692	1,852	0	(54,519)	1,025
Net change in fund balances	(2,448,704)	127,349	(1,045,520)	436,779	(2,930,096)
Fund balance beginning of year	6,448,876	3,030,841	5,136,221	1,517,277	16,133,215
Fund balance end of year	$ 4,000,172	3,158,190	4,090,701	1,954,056	13,203,119

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

MUSCATINE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2009

Net change in fund balances - total governmental funds (page 18)		$ (2,930,096)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures, depreciation expense and loss on disposal of assets in the current year, are as follows:		
Expenditures for capital assets	$ 5,886,169	
Depreciation expense	(1,828,082)	
Loss on disposal of capital assets	(34,202)	4,023,885
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early retirement	$ 371,525	
Other postemployment benefits	(8,809)	362,716
Changes in net assets of governmental activities (page 15)		$ 1,456,505

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	School Nutrition
ASSETS	
Current assets:	
Cash and pooled investments	$ 519,268
Accounts receivable	1,080
Due from other governments	33,309
Inventories	76,752
Total current assets	630,409
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	147,788
Total non-current assets	147,788
TOTAL ASSETS	778,197
LIABILITIES	
Current liabilities:	
Accounts payable	3,081
Salaries and benefits payable	124,327
Unearned revenue	28,797
Total current liabilities	156,205
Long-term liabilities:	
Net OPEB liability	191
Total long-term liabilities	191
TOTAL LIABILITIES	156,396
NET ASSETS	
Invested in capital assets	147,788
Unrestricted	474,013
TOTAL NET ASSETS	$ 621,801

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	$ 1,096,801
Miscellaneous	1,117
TOTAL OPERATING REVENUE	1,097,918
OPERATING EXPENSES:	
Support services:	
Administration:	
Salaries	22,010
Benefits	7,752
Services	17,105
Supplies	19,190
Operation and maintenance of plant:	
Supplies	3,242
Total support services	69,299
Non-instructional programs:	
Food service operations:	
Salaries	892,969
Benefits	311,207
Services	151,906
Supplies	1,216,711
Depreciation	76,031
Other	12,135
Total non-instructional programs	2,660,959
TOTAL OPERATING EXPENSES	2,730,258
OPERATING LOSS	(1,632,340)
NON-OPERATING REVENUES:	
State sources	27,247
Federal sources	1,515,539
Interest income	1,953
TOTAL NON-OPERATING REVENUES	1,544,739
Change in net assets	(87,601)
Net assets beginning of year	709,402
Net assets end of year	$ 621,801

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	$ 1,103,908
Cash received from miscellaneous operating activities	1,117
Cash payments to employees for services	(1,203,256)
Cash payments to suppliers for goods or services	(1,279,239)
Net cash used in operating activities	(1,377,470)
Cash flows from non-capital financing activities:	
State grants received	27,247
Federal grants received	1,339,615
Net cash provided by non-capital financing activities	1,366,862
Cash flows from capital financing activities:	
Acquisitions of assets	(43,727)
Cash flows from investing activities:	
Interest on investment	1,953
Net decrease in cash and cash equivalents	(52,382)
Cash and cash equivalents at beginning of year	571,650
Cash and cash equivalents at end of year	$ 519,268
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (1,632,340)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	161,113
Depreciation	76,031
Increase in inventories	(645)
Decrease in accounts receivable	3,855
Decrease in accounts payable	(19,418)
Increase in salaries and benefits payable	30,491
Increase in unearned revenue	3,252
Increase in net OPEB liability	191
Net cash used in operating activities	$ (1,377,470)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2009, the District received Federal commodities valued at $161,113.

SEE NOTES TO FINANCIAL STATEMENTS.

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2009

	Private Purpose Trust	
	Scholarship Fund	Agency Fund
ASSETS		
Cash and pooled investments:		
U.S. Treasury Bonds	$ 74,000	0
Other	81,180	128,165
Interest receivable	664	0
Total assets	155,844	128,165
LIABILITIES		
Due to other groups	0	128,165
Total liabilities	0	128,165
NET ASSETS		
Reserved for scholarships	$ 155,844	0

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit K

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2009

	Private Purpose Trust Scholarship Fund
Additions:	
Local sources:	
Interest on investments	$ 7,822
Deletions:	
Instruction	
Regular:	
Scholarships awarded	7,674
Change in net assets	148
Net assets beginning of year	155,696
Net assets end of year	$ 155,844

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit L

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - CASH BASIS
COMPONENT UNIT
DECEMBER 31, 2008

ASSETS		
Cash and cash equivalents	$	224,339
Certificates of Deposit		583,183
Investments		768,534
TOTAL ASSETS		1,576,056
LIABILITIES		0
NET ASSETS		
Restricted		1,497,076
Unrestricted		78,980
TOTAL NET ASSETS	$	1,576,056

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit M

MUSCATINE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET ASSETS - CASH BASIS
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2008

	Restricted Funds	Unrestricted Funds	Total
REVENUES:			
Interest	27,446	3,587	31,033
Donations	387,939	2,608	390,547
Dividends	36,300	10	36,310
Other	1,345	4,035	5,380
TOTAL REVENUES	453,030	10,240	463,270
EXPENSES:			
Scholarships	107,592	13,766	121,358
Grants	18,359	0	18,359
Management fees	6,938	0	6,938
Contracted services	0	9,312	9,312
Supplies	1,025	119	1,144
Printing	0	314	314
Realized loss	5,072	0	5,072
TOTAL EXPENSES	138,986	23,511	162,497
Excess(deficiency) of revenues over(under) expenses	314,044	(13,271)	300,773
OTHER FINANCING SOURCES(USES):			
Unrealized loss on investments	(551,791)	(394)	(552,185)
Transfers	(12,835)	12,835	0
TOTAL OTHER FINANCING SOURCES(USES)	(564,626)	12,441	(552,185)
Change in net assets	(250,582)	(830)	(251,412)
Net assets beginning of year	1,747,658	79,810	1,827,468
Net assets end of year	$ 1,497,076	78,980	1,576,056

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The Muscatine Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Muscatine, Iowa, and the predominate agricultural territory in Muscatine County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Muscatine Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Muscatine Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

These financial statements present Muscatine Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting because of the significance of its operational or financial relationship with the District. Certain disclosures about the component unit are not included because the component unit has been audited separately and report has been issued under separate cover. The audited financial statements are available at the District.

Discrete Component Unit - Muscatine Community School Foundation is a legally separate not-for-profit foundation. The Foundation was established for the purpose of giving financial assistance to the Muscatine Community School District and granting scholarships to its students who will attend community colleges and universities. The Foundation is governed by a Board of Directors who are appointed by the School District Board.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Muscatine County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some

other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy Fund is utilized to account for building improvements and equipment purchases.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary fund is the Enterprise Fund, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund includes the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets help by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements.

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	$ 2,000
Buildings	10,000
Land improvements	10,000
Machinery and equipment:	
School Nutrition Fund equipment	250
Other machinery and equipment	2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designated Fund Balances - In the governmental fund financial statements, designated funds are not available for appropriation but are set aside for a specific purpose. The designated fund balances are reported for a specific purpose for an amount that reflects a reserve for Medicaid.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of drainage district.

Bonds are stated at fair value. Bonds traded on a national or international exchange are valued the last reported sales price at current exchange rates.

At June 30, 2009, the District had investments in U.S. Treasury Bonds as follows:

	Fair Value
U.S. Treasury Bonds	$ 74,000

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	$ 790

At June 30, 2009, the District had investments in Tamarack Investment Funds as follows:

	Amortized Cost
Tamarack Investment Funds	$ 20,519

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service. The investments in the Tamarack Investment Funds are registered and not subject to rating.

(3) Transfers

The detail of transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
Physical Plant and Equipment Levy	Activity	$ 1,852
General	Activity	52,667
		$ 54,519

The Activity Fund transferred remaining account balances from the elementary building playground accounts to the Physical Plant and Equipment Levy Fund.

The Activity Fund transferred remaining account balances from individual accounts that appeared to not meet the criteria of a student organization or extracurricular activity per the Iowa Department of Education's administrative rule 298A.8.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 741,270	7,722	0	748,992
Construction in progress	1,392,299	4,781,160	68,925	6,104,534
Total capital assets not being depreciated	2,133,569	4,788,882	68,925	6,853,526
Capital assets being depreciated:				
Buildings	39,778,866	314,944	0	40,093,810
Land improvements	2,281,857	94,379	0	2,376,236
Machinery and equipment	5,515,472	756,889	564,899	5,707,462
Total capital assets being depreciated	47,576,195	1,166,212	564,899	48,177,508
Less accumulated depreciation for:				
Buildings	18,493,560	1,312,906	0	19,806,466
Land improvements	460,877	112,453	0	573,330
Machinery and equipment	3,863,229	402,723	530,697	3,735,255
Total accumulated depreciation	22,817,666	1,828,082	530,697	24,115,051
Total capital assets being depreciated, net	24,758,529	(661,870)	34,202	24,062,457
Governmental activities capital assets, net	$ 26,892,098	4,127,012	103,127	30,915,983

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	$ 390,343	43,727	0	434,070
Less accumulated depreciation	210,251	76,031	0	286,282
Business type activities capital assets, net	$ 180,092	(32,304)	0	147,788

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 1,425,292
Support services:	
Student	3,239
Instructional staff	40,766
Administration	53,654
Operation and maintenance of plant	63,242
Transportation	213,835
Non-instructional programs:	
Food service operations	28,054
Total governmental activities depreciation expense	$ 1,828,082
Business type activities:	
Food services	$ 76,031

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
Early Retirement	$ 2,490,080	395,193	766,718	2,118,555	799,598
Net OPEB Liability	0	8,809	0	8,809	0
Total	$ 2,490,080	404,002	766,718	2,127,364	799,598

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business Type Activities:					
Net OPEB Liability	$ 0	191	0	191	0

Early Retirement

The District previously offered a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences and be eligible for health insurance by virtue of being full-time as defined by their employee group. The application for early retirement is subject to approval by the Board of Education.

The plan is reviewed and updated as required since its inception to meet the current IRS rules and court decisions. The monies are provided so that the retirees have monies to assist them purchasing health care. Under the plan an employee currently enrolled in the district's insurance plan must deposit the proceeds pre-tax into a health reimbursement account and from this account they may pay health insurance premiums, co-pays, deductibles and out of pocket health costs. The employees who are not enrolled in the district health insurance program receive the proceeds after the normal deductions for FICA, Medicare, state and federal taxes.

At June 30, 2009, the District has obligations to 119 participants with a liability of $2,118,555. Early retirement expenditures for the year ended June 30, 2009, totaled $766,718. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual salary and the District is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were $1,954,469, $1,730,729 and $1,599,007 respectively, equal to the required contributions for each year.

(7) Risk Management

The Muscatine Community School District is a member in the Iowa School Employees Benefits Association, fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: health, dental and long-term disability.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2009 was $5,053,951.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

Muscatine Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No.45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2009.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 725 active and 75 retired members in the plan. Employees must be age 55 or older at retirement.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by the Iowa School Employees Benefits Association. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - the contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for June 30, 2009, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	$ 908,000
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	908,000
Contributions made	(899,000)
Increase in net OPEB obligation	9,000
Net OPEB obligation - beginning of year	0
Net OPEB obligation - end of year	$ 9,000

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2009.

For the fiscal year 2009, the District contributed $899,000 to the medical plan. Plan members receiving benefits contributed $514,000, or 36% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2009 are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	$ 908,000	99.01%	$ 9,000

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2009, the actuarial accrued liability was $8.933 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $8.933 million. The covered payroll (annual payroll of active employees covered by the plan) was $23.974 million, and the ratio of the UAAL to the covered payroll was 37.3%. As of June 30, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information in the section following the Notes to the Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by a percentage each year until reaching the 5% ultimate trend rate.
Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2007 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan adjusted to age 60 are $703 per month. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage on an open basis over 30 years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $1,949,818 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitments

The District entered into various contracts totaling $8,963,518 for capital facility construction projects at McKinley Elementary, Madison Elementary, Mulberry Elementary, Grant Elementary and Garfield Elementary. At June 30, 2009, $6,104,534 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

(11) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2009 are broken out by the following projects:

Project		Amount
Talented and gifted	$	112,328
Returning dropouts and dropout prevention		167,026
Four-year-old preschool		117,029
Beginning teacher mentoring		2,523
Salary improvement program		9,120
Additional teacher contract day		13,754
Market factor		18,500
Beginning administrator mentoring		2,250
Phase III - Educational excellence program		9,254
Early intervention		3,000
Model core curriculum		67,932
Professional development		13,306
Market factor incentives		28,095
Total	$	564,117

(12) 28E Agreement

The District participates in a Chapter 28E agreement with the Muscatine Agricultural Learning Center, the Friends of the Muscatine FFA and the Eastern Iowa Community College District. The agreement is to remain in effect for a minimum period of ten years. In the event the Muscatine Agricultural Learning Center is dissolved, there is a plan to split the remaining balance and assets owned between the three partners in the agreement.

In accordance with the agreement, the Muscatine Agricultural Learning Center is to own and operate the facility to provide educational opportunities for students of the Eastern Iowa Community College District and the Muscatine Community School District. The Friends of the Muscatine FFA intend to obtain financial support for the construction of the facility and have shared advisory and governance responsibilities with the other members of the agreement. The Eastern Iowa Community College District and the Muscatine Community School District will provide funds for the construction of the facility as well be a program and tenant partner of the learning center.

REQUIRED SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2009

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
Revenues:						
Local sources	$ 21,084,378	1,099,871	22,184,249	22,435,128	22,435,128	(250,879)
State sources	30,363,984	27,247	30,391,231	32,512,179	32,512,179	(2,120,948)
Federal sources	2,099,916	1,515,539	3,615,455	2,760,223	2,760,223	855,232
Total revenues	53,548,278	2,642,657	56,190,935	57,707,530	57,707,530	(1,516,595)
Expenditures/Expenses:						
Instruction	35,249,068	0	35,249,068	34,162,698	35,300,000	50,932
Support services	13,868,730	69,299	13,938,029	13,868,136	15,100,000	1,161,971
Non-instructional programs	26,418	2,660,959	2,687,377	2,598,204	2,900,000	212,623
Other expenditures	7,335,183	0	7,335,183	7,127,993	7,700,000	364,817
Total expenditures/expenses	56,479,399	2,730,258	59,209,657	57,757,031	61,000,000	1,790,343
Excess(deficiency) of revenues over(under) expenditures/expenses	(2,931,121)	(87,601)	(3,018,722)	(49,501)	(3,292,470)	273,748
Other financing sources, net	1,025	0	1,025	2,000	2,000	(975)
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	(2,930,096)	(87,601)	(3,017,697)	(47,501)	(3,290,470)	272,773
Balance beginning of year	16,133,215	709,402	16,842,617	16,090,183	16,090,183	752,434
Balance end of year	$ 13,203,119	621,801	13,824,920	16,042,682	12,799,713	1,025,207

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2009, the District amended its budget one time increasing total expenditures by $3,242,969.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	$ -	$ 8,933	$ 8,933	0.0%	$23,974	37.3%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2009

	Management Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	$ 1,473,756	488,934	1,962,690
Receivables:			
Property tax:			
Delinquent	30,484	0	30,484
Succeeding year	1,505,000	0	1,505,000
Accounts	0	3,554	3,554
Due from other governments	408	0	408
TOTAL ASSETS	$ 3,009,648	492,488	3,502,136
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 6,617	5,221	11,838
Salaries and benefits payable	0	31,242	31,242
Deferred revenue:			
Succeeding year property tax	1,505,000	0	1,505,000
Total liabilities	1,511,617	36,463	1,548,080
Unreserved fund balances	1,498,031	456,025	1,954,056
TOTAL LIABILITIES AND FUND BALANCES	$ 3,009,648	492,488	3,502,136

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2009

	Management Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	$ 1,774,041	0	1,774,041
Other	99,626	904,332	1,003,958
TOTAL REVENUES	1,873,667	904,332	2,777,999
EXPENDITURES:			
Current:			
Instruction:			
Regular	919,881	0	919,881
Other	0	865,688	865,688
Support services:			
Student	14,764	0	14,764
Instructional staff	5,269	295	5,564
Administration	126,505	0	126,505
Operation and maintenance of plant	222,887	0	222,887
Student transportation	64,583	40,411	104,994
Non-instructional programs:			
Food service operations	26,418	0	26,418
TOTAL EXPENDITURES	1,380,307	906,394	2,286,701
Excess(Deficiency) of revenues over(under) expenditures	493,360	(2,062)	491,298
Other financing uses:			
Transfer out	0	(54,519)	(54,519)
Net change in fund balances	493,360	(56,581)	436,779
Fund balance beginning of year	1,004,671	512,606	1,517,277
Fund balance end of year	$ 1,498,031	456,025	1,954,056

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expenditures and Interfund Transfers	Balance End of Year
High School:				
Petty Cash	$ 1,600	0	0	1,600
Speech	0	3,457	3,457	0
Student Services	21,052	5,764	7,212	19,604
AP Fund	1,717	11,007	11,344	1,380
Band	10,949	82,664	83,920	9,693
Chorus	(3,230)	20,170	19,478	(2,538)
All Colors Count	1,828	0	160	1,668
Interact Club	539	4,855	1,096	4,298
Drama	9,153	18,643	13,708	14,088
Forensics	9,649	0	7,174	2,475
Annual Auroran	51,984	50,482	98,309	4,157
Weekly Auroran	2,162	507	2,405	264
Auxilary Scholarship	2,423	236	336	2,323
Class of 2008	7,188	563	7,751	0
Class of 2009	5,086	1,588	1,166	5,508
Class of 2010	0	10,432	3,819	6,613
Future Business Leaders	548	2,136	2,043	641
FFA Milk Machine	203	0	0	203
Fine Arts	2,072	0	0	2,072
French Club	1,246	2,732	1,300	2,678
German Club	1,031	7,598	7,512	1,117
Spanish Club	541	672	500	713
Library Club	21	260	0	281
MHS Science Club	902	1,290	534	1,658
Model UN	1,802	2,792	1,207	3,387
Young Ambassadors	0	3,200	1,000	2,200
Student Council	5,915	32,035	34,172	3,778
Athletics	35,286	215,735	223,871	27,150
Cheerleaders	5,304	13,934	20,611	(1,373)
Donation Fund	34,816	10,297	3,224	41,889
Pom Pom	0	2,804	7,338	(4,534)
Sports Calendar	24,117	34,651	20,874	37,894
Tournaments	10,874	1,559	2,860	9,573
Special Ed Work Experience	9,972	47,391	51,004	6,359
	256,750	589,454	639,385	206,819

Schedule 3

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expenditures and Interfund Transfers	Balance End of Year
Elementary Schools:				
Colorado	5,636	12,403	12,494	5,545
Franklin	6,909	5,379	6,890	5,398
Garfield	10,329	1,688	1,458	10,559
Grant	8,266	13,341	5,094	16,513
Jefferson	4,788	807	3,232	2,363
Madison	11,661	3,843	4,540	10,964
Madison Friends of Playgroud C.D.	7,500	286	0	7,786
Mckinley	6,810	12,039	8,358	10,491
Mulberry	11,564	3,849	8,539	6,874
Washington	3,471	2,995	5,160	1,306
Elementary Petty Cash	450	0	300	150
	77,384	56,630	56,065	77,949
Central Middle School:				
Athletics	4,985	2,788	6,269	1,504
Fund Raisers	13,372	30,533	28,232	15,673
Student Council	2,672	0	806	1,866
General Activity	15,143	2,597	595	17,145
Little Store	1,189	286	0	1,475
Music/Drama	2,954	2,421	1,187	4,188
Yearbook	3,908	6,832	6,200	4,540
Juice	1,109	6,190	4,746	2,553
Officials	1,206	6,998	5,452	2,752
Bookfairs	2,212	3,772	3,768	2,216
CMS Petty Cash	200	0	0	200
	48,950	62,417	57,255	54,112
West Middle School:				
Athletics	9,890	15,083	18,849	6,124
Fund Raisers	8,792	26,842	24,794	10,840
General Activity	3,198	26,626	21,058	8,766
Little Store	512	413	400	525
Music/Drama	9,240	19,286	26,599	1,927
WMS Bookfairs	137	9,411	2,874	6,674
Math-a-thon	3,914	0	3,914	0
Officials	349	7,235	6,112	1,472
Student Council	1,385	2,615	2,153	1,847
Yearbook	52	8,068	7,762	358
Band	5,978	675	2,294	4,359
6th Grade Bookfairs	6,410	0	6,410	0
WMS Petty Cash	200	0	0	200
	50,057	116,254	123,219	43,092

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expenditures and Interfund Transfers	Balance End of Year
Central Office:				
College for Kids	(10)	53,931	49,571	4,350
Interest Investments	46,673	3,220	3,255	46,638
Miscellaneous	653	2,254	2,165	742
Community Education	241	74	307	8
Activity Van	31,908	20,098	29,691	22,315
	79,465	79,577	84,989	74,053
Total	$ 512,606	904,332	960,913	456,025

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
PRIVATE PURPOSE TRUST FUND
JUNE 30, 2009

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Total
ASSETS			
Cash and pooled investments:			
U.S. Treasury Bonds	$ 74,000	0	74,000
Other	19,426	61,754	81,180
Interest receivable	259	405	664
TOTAL ASSETS	93,685	62,159	155,844
TOTAL LIABILITIES	0	0	0
NET ASSETS			
Reserved for scholarships	$ 93,685	62,159	155,844

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 5

MUSCATINE COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN NET ASSETS
PRIVATE PURPOSE TRUST FUND
YEAR ENDED JUNE 30, 2009

	Bernadette and Paul Rohling Scholarship	Illeen Rohling Scholarship	Total
Additions:			
Local sources:			
Interest on investments	$ 401	7,421	7,822
Deductions:			
Instruction:			
Regular:			
Scholarships awarded	5,674	2,000	7,674
Change in net assets	(5,273)	5,421	148
Net assets beginning of year	98,958	56,738	155,696
Net assets end of year	$ 93,685	62,159	155,844

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
YEAR ENDED JUNE 30, 2009

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	$ 567,298	1,560,007	1,999,140	128,165
LIABILITIES				
Due to other groups	$ 567,298	1,560,007	1,999,140	128,165

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST SIX YEARS

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	$ 18,488,404	17,842,274	16,956,518	16,861,241	16,469,084	16,371,805
Tuition	634,578	656,615	685,601	627,827	1,095,561	1,182,937
Other	1,961,396	2,386,934	2,573,161	2,523,208	1,987,159	1,640,959
State sources	30,363,984	29,280,415	27,849,315	26,377,373	24,926,493	23,761,286
Federal sources	2,099,916	1,737,646	1,498,477	2,879,013	2,057,495	1,938,482
Other sources	0	0	0	156,851	203,136	13
Total	$ 53,548,278	51,903,884	49,563,072	49,425,513	46,738,928	44,895,482
Expenditures:						
Current:						
Instruction:						
Regular	$ 21,963,166	20,465,902	19,111,412	18,801,847	18,951,377	17,678,401
Special	7,590,536	6,956,542	6,760,353	10,525,190	10,372,197	9,765,835
Other	5,695,366	5,298,760	5,143,073	1,538,951	1,156,007	1,117,281
Support services:						
Student	1,459,094	1,407,202	1,330,859	1,312,963	1,263,997	1,183,036
Instructional staff	1,092,250	1,138,973	975,467	1,772,001	1,362,482	1,380,395
Administration	5,436,431	5,032,575	4,647,569	2,403,324	2,478,432	2,166,956
Operation and maintenance of plant	4,244,947	4,424,856	3,781,663	3,668,441	3,388,560	3,376,632
Transportation	1,636,008	1,695,177	1,420,991	1,332,785	1,311,873	937,431
Other support	0	0	0	197,781	3,024	176,779
Non-instructional programs	26,418	41,495	64,175	57,958	68,506	81,022
Other expenditures:						
Facilities acquisitions	5,385,365	3,772,776	3,554,801	2,714,403	4,127,947	4,765,109
Long-term debt:						
Principal	0	0	0	760,000	735,000	869,478
Interest and fiscal charges	0	0	0	21,773	47,869	69,953
AEA flow-through	1,949,818	1,851,969	1,765,207	1,651,446	1,581,225	1,561,603
Total	$ 56,479,399	52,086,227	48,555,570	46,758,863	46,848,496	45,129,911

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 09	$ 308,780
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 09	1,133,148
SPECIAL MILK PROGRAM FOR CHILDREN	10.556	FY 09	918
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 09	62,979
			1,505,825
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 09	9,714
U.S. DEPARTMENT OF DEFENSE:			
MUSCATINE COUNTY:			
FLOOD CONTROL PROJECTS	12.106	FY 09	32,028
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-G	712,406
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1782-GC	95,429
			807,835
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES(I-STAR)	84.027	FY 09	1,575
SPECIAL EDUCATION - GRANTS TO STATES(COMMUNICATION STRATEGIES)	84.027	FY 09	1,200
SPECIAL EDUCATION - GRANTS TO STATES(EVERY MOVE COUNTS)	84.027	FY 09	750
			3,525
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 09	18,680
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 09	46,459
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 09	259,130
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 09	34,437
ARRA - STATE FISCAL STABILIZATION FUND(SFSF) EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 09	456,335
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 09	299,704
ARRA - SPECIAL EDUCATION - GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 09	13,849
			313,553
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 09	61,068
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
AREA EDUCATION AGENCY:			
HEAD START(IOWA HEADSTART COLLABORATIVE)	93.600	FY 09	2,950
TOTAL			$ 3,551,539

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Muscatine Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Muscatine Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Muscatine Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Muscatine Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Muscatine Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Muscatine Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Muscatine Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Muscatine Community School District's financial statements that is more than inconsequential will not be prevented or detected by Muscatine Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Muscatine Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muscatine Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Muscatine Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Muscatine Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Muscatine Community School District and other parties to whom Muscatine Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Muscatine Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Nolte, Cornman & Johnson P.C.

NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2010

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Muscatine Community School District

Compliance

We have audited the compliance of Muscatine Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. Muscatine Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Muscatine Community School District's management. Our responsibility is to express an opinion on Muscatine Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muscatine Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Muscatine Community School District's compliance with those requirements.

In our opinion, Muscatine Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Muscatine Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Muscatine Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muscatine Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Muscatine Community School District and other parties to whom Muscatine Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2010

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part I: Summary of the Independent Auditor's Results:

(a) Unqualified opinions were issued on the financial statements.

(b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements. The significant deficiency was not considered a material weakness.

(e) An unqualified opinion was issued on compliance with requirements applicable to each major program.

(f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

(g) Major program was as follows:

Clustered Programs
- CFDA Number 10.553 - School Breakfast Program
- CFDA Number 10.555 - National School Lunch Program
- CFDA Number 10.556 - Special Milk Program for Children
- CFDA Number 10.559 - Summer Food Service Program for Children

Clustered Programs
- CFDA Number 84.027 - Special Education - Grants to States(Part B)
- CFDA Number 84.027 - Special Education - Grants to States(I-Star)
- CFDA Number 84.027 - Special Education - Grants to States(Communication Strategies)
- CFDA Number 84.027 - Special Education - Grants to States(Every Move Counts)
- CFDA Number 84.391 - ARRA - Special Education - Grants to States(Part B), Recovery Act

Individual
- CFDA Number 84.394 - ARRA State Fiscal Stabilization Fund(SFSF) Education State Grants, (Recovery Act)

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) Muscatine Community School District did not qualify as a low-risk auditee.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

II-A-09 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the bank reconciliations are prepared by an authorized signer and the same person who prepares the checks.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-09 Agency Funds - We noted during our audit that the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the district serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District place certain assets into custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund."

The District appears to be improperly accounting for agency accounts. We noted credit card fees, cobra retiree insurance, flex spending, rental of band instruments, drivers ed equipment, technology, technology and media grants, industrial tech sales, art sales and elementary projects are reported in the Agency Fund. Agency funds are to account for non-district revenue. Many of these accounts should be reported in the General Fund.

Recommendation - The District should review Chapter 9 of the LEA Administrative Manual which identifies funds and allowable revenues and expenses. The District should review specifically the Student Activity and Agency Funds. The District should review each agency account for propriety and make the necessary transfers to the proper fund where monies can be appropriately be receipted and expensed.

Response - We will review Chapter 9 of the LEA Administrative Manual and then review our practices and determine appropriateness making changes whenever possible.

Conclusion - Response accepted.

II-C-09 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues.

Response - We will review our procedures with the athletic/activities department. We will investigate ways to comply with the requirements.

Conclusion - Repsonse accepted.

II-D-09 Gate Admissions - We noted during our audit that the District does not utilize pre-numbered tickets for all event admissions.

Recommendation - The District should use pre-numbered tickets for all events that there is an admission fee charged.

Response - The District will review gate admissions procedures.

Conclusion - Response accepted.

II-E-09 Muscatine Agricultural Learning Center (MALC) - We noted during our audit that the District is in a 28E agreement with the Friends of the Muscatine FFA, Eastern Iowa Community College District and the Muscatine Agricultural Learning Center. MALC has its own board of directors that consists of persons from Friends of the Muscatine FFA, Eastern Iowa Community College District and the Muscatine Community School District. This agreement is on file at the Secretary of State.

Upon further review of the operations of MALC, it appears that MALC is operating as a legally separate entity rather than a 28E agreement.

MALC has entered in to debt agreements as well as purchased land that is held in MALC's name. According to the articles of agreement for MALC, none of the participants in this agreement are responsible for the debts or land purchases for MALC unless MALC is dissolved within the ten year period of the agreement. If MALC is a 28E agreement rather than an organization, related debts and assets should be shown on the books of the related parties of the agreement. Currently, these items are not reported by any members of the agreement.

MALC has applied for and received an employer identification number (EIN) from the U.S. Treasury Department to be able to deposit payroll taxes. Currently, the District pays all payroll taxes and bills MALC to reimburse for the expense. Since MALC has their own EIN and has the appearance of being a separate entity, MALC should be filing their own payroll taxes.

Recommendation - The District's Board of Directors as well as the administration of the other members involved in the 28E agreement should consult legal counsel to determine whether the intent of MALC is to be recognized as a 28E entity or 28E agreement. The participants should then prepare financial statements in accordance with requirements of the organization's legal structure.

Response - The District is working in conjunction with the District's auditors and the Auditor of State to determine whether MALC is a 28E entity or agreement. Whatever determination is made, the District will make adjustments to comply the recommendation that will be made.

Conclusion - Response accepted.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.556: Special Milk Program for Children
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2009
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-A-09 Free and Reduced Lunch Applications - We noted during our audit that one of the free and reduced lunch applications in our testing were marked as free, but actually should have been marked as reduced.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response -The District will review our procedures and take the appropriate action to correct the reports.

Conclusion - Response accepted.

MUSCATINE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 Certified Budget - District expenditures for the year ended June 30, 2009, did not exceed the amount budgeted.

IV-B-09 Questionable Disbursements - We noted no expenditures that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-09 Business Transactions - Business transactions between the District and District officials are as follows:

Name, Title and Business Connection	Transaction Description	Amount
Renee Hyink, Teacher's Aid Brother owns Bryant Roofing	Services	$99,360
Stacie Olsen, Teacher Spouse is director of Muscatine Community YMCA	Services	$68,509
Susan Krieger, Teacher Spouse owns Krieger Motors Company	Vehicle Purchases	$40,670
Spouse owns Enterprise Rentals	Services	$1,214
Mary Shihadeh, Preschool Coordinator Mother owns A Childs Place	Services	$37,473
Lori Baker, Teacher Spouse Vice-President of Hometown Plumbing & Heating	Services	$31,304
Cathy Reifert, Receptionist Mother owns and spouse manages Sprouse Distributing	Supplies	$21,966
Mary Whitacre, Teacher Spouse owns Martin & Whitacre	Surveying Services	$14,443
May Lucas, Bus Driver Son owns Lucas Communication	Services	$821
Kevin Lange, Mechanic Brother owns Lange Safety Service	Services	$469

Jason Wester, Technology Father owns Wester Drug Store	Supplies	$335
Robert Weaton, High School Principal Spouse owns Skywriter Invitations	Services	$35
Jeff Cochran, Bus Driver Owner of Bosch Pest Control	Services	$9,417

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with family members or spouses of district employees do not appear to represent a conflict of interest.

In accordance with Attorney General's Opinion dated July 2, 1990, the above transactions with the bus driver do not appear to present a conflict of interest.

IV-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will publish the minutes as required in the future.

Conclusion - Response accepted.

IV-G-09 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled out was overstated by three students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-H-09 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-09 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-J-09 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

However, we noted during our audit that the District has several state allocation and categorical funding carryover balances. The District should review these and should have a plan for expending the carryover balances.

Recommendation - The District should review the state allocation and categorical funding carryover balances. The District should develop a plan for expending the carryover balances.

Response - The District will review plans for state allocations and categorical funding. However, the District judiciously monitors and spends state and categorical funding; only spending the money when appropriate.

Conclusion - Response accepted.

IV-K-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance	$	0
Statewide sales and services tax revenue		3,752,525
Expenditures:		
School infrastructure:		
Buildings		3,752,525
Ending balance	$	0

IV-L-09 Financial Condition - The District has three negative accounts within the Student Activity Fund totaling $8,445.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should continue to monitor this fund and investigate alternatives to eliminate the deficits.

Response - The District will review our procedures regarding procurement and disbursements for the Activity Fund.

Conclusion - Response accepted.

IV-M-09 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - The District will review our procedures and make adjustments to comply.

Conclusion - Response accepted.

IV-N-09 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations which have been outstanding for over a year.

Recommendation - The District needs to determine if the checks need to be voided, reissued or submitted to the State Treasurer as unclaimed property. Per Chapter 556.1(10) and 556.11 of the Code of Iowa the District is required to report unclaimed property to the State Treasurer annually before November 1st.

Response - The District will review any outstanding checks and adhere to Chapter 556.1(10) and 556.11 of the Code of Iowa.

Conclusion - Response accepted.

IV-O-09 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. A more specific example of these instances is as follows:

We noted purchases from the Student Activity Fund for computers, a van and instructional supplies. These expenditures are not allowed in the Student Activity Fund. The monies raised for these items noted need be accounted for in a fund where these expenditures are allowable.

There are Interest accounts. The balances in the interest accounts should be distributed annually amongst the other individual accounts in the Student Activity Fund that earned the interest.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - The District will continue with the review of the Activity Fund and make corrections whenever possible.

Conclusion - Response accepted.